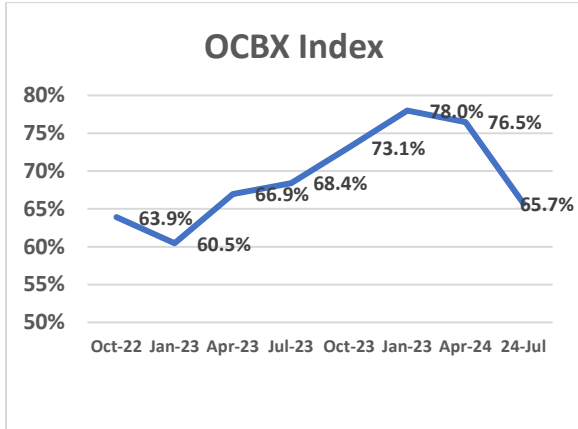


Orange County Business Expectations Survey, OCBX 3rd Quarter 2024

Project Director: Anil K. Puri, Ph.D. (apuri@fullerton.edu)

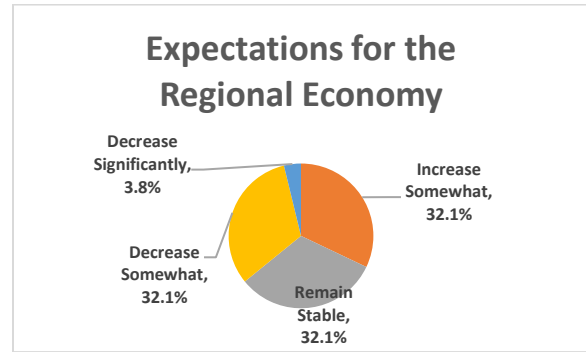
Orange County Business Expectations: OCBX Index

The overall index, OCBX, for the 3rd quarter of 2024 dropped to 65.7 from 76.5 in the 2nd quarter of 2024, the second decline in 5 quarters. It indicates weakening of the business sentiment for the 3rd quarter 2024. This is the second consecutive drop in the index. OCBX index is a measure of the overall view of the economy, and it is constructed from other variables in the survey. A reading of above 50 indicates future growth in the economy.



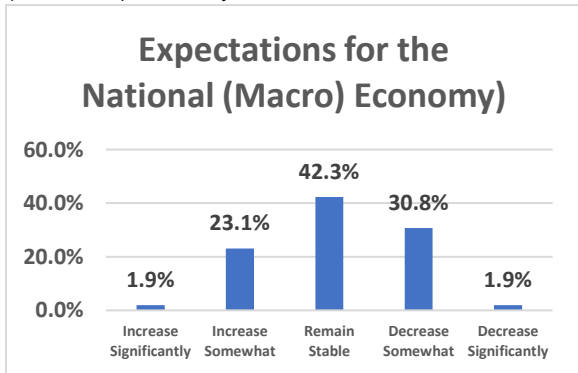
Own Industry Activity

None of the executives surveyed expect their own industry activity to increase significantly in the coming quarter, compared to 2% who said so the last quarter. 32% expect some growth in their own industry (compared to 20% in the last quarter). 32.1% (compared to 53% last quarter) of Orange County firms believe that their own industry will remain stable. 32.1% (compared to 20% in the previous quarter) predict decreases in their industry. Most of the business leaders are expecting slower growth in their own industry in the coming quarter compared to the previous quarter.



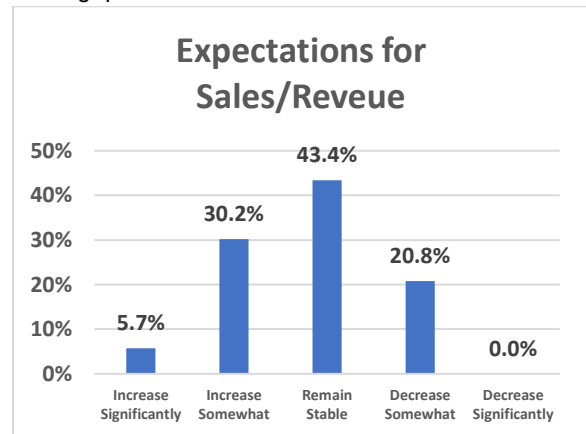
Overall Business Activity

The proportion of owners, CEOs, and managers that expect overall business activity to improve decreased to 25% for the 3rd quarter of 2024 from 26% in the 2nd quarter of 2024. Those believing the situation will remain unchanged the percentage decreased to 42.3% from 53%, and those expecting the regional economy to slow down increased to 32.7% from 22%. This measure asks for responses to questions about Orange County executives' outlook for the national (US macro) economy.



Sales and Revenue

35.9% of the firms surveyed expect their sales to increase this quarter (compared to 35% in the last quarter), 43.4% expect little change (compared to 49% the last quarter) and 20.8% expect to have lower sales (compared to 16% in the last quarter). It seems that more firms are expecting a sales slowdown in the coming quarter.



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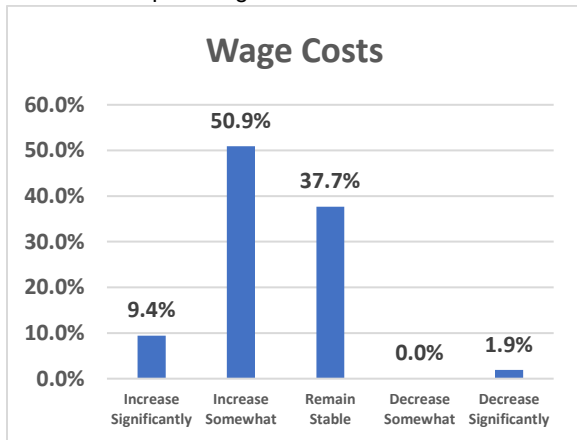
Employment

22.6% of firms surveyed intend to increase their labor force (compared to 18% in the last quarter), 67.9% intend to make no change (compared to 69% last quarter), and 9.4% expect to cut jobs (14% in the last quarter). It appears that the firms will continue along their hiring plans this quarter.



Labor Costs

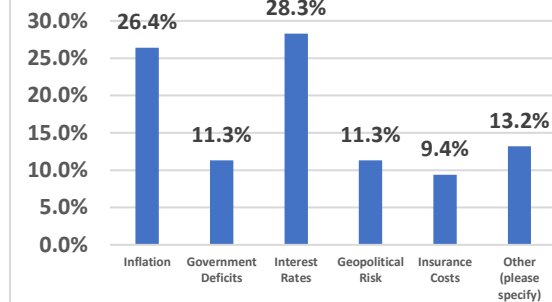
60.3% of executives surveyed, compared to 58% last quarter, expect wages to increase in the coming quarter, and 37.7%, compared to 40% last quarter, expect them to remain unchanged. Very few executives expect wages to decrease in Q3:2024.



Biggest Concerns

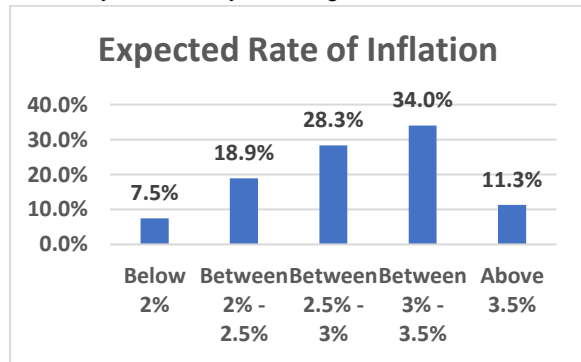
Interest rate concerns overshadowed inflation as the most common concern, with 28.3% compared to 26.4%. Geopolitical risks tied government deficits as the third and fourth most important concern. Other concerns mentioned were regulatory constraints, immigration, staffing, unions and steel market.

Most Important Concern



Inflation Expectations

We asked respondents to share their forecasts of inflation for December 2024. 11.3% (compared to 8% last quarter) expect inflation to be above 3.5%, 34% expect inflation by the end of 2024 to be between 3% and 3.5% (compared to 41% last quarter). 28.3% expect it to come in between 2.5% and 3% (compared to 29% last quarter) and 18.9% expect it to be between 2% and 2.5% (20% last quarter). Another 7.5% expect it to fall to below 2% (2% last quarter). It appears that inflation expectations at the two extremes are more divergent than the last quarter but have stayed relatively unchanged in the middle.



Outlook for Next 12 Months

Given the continuing uncertainty about the US economy, we asked for their general outlook on the economy over the next 12 months. 23% said they were hopeful, optimistic while 11.5% said they were pessimistic about the near-term outlook. 44.2% were cautious about the next 12 months while the optimism level was lower for another 21.2% compared to the last quarter.

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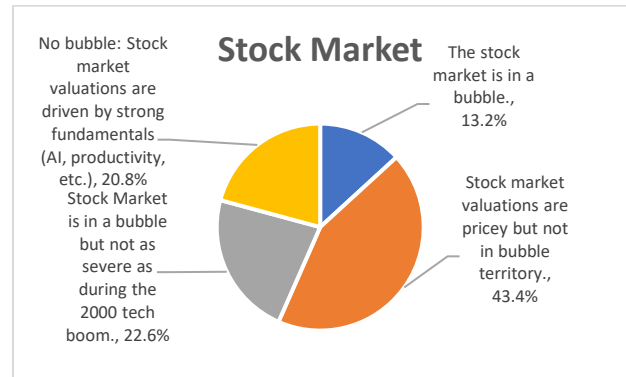
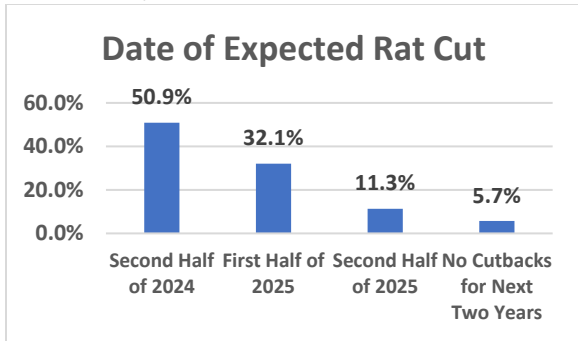
Is the Stock Market in a Bubble?

The stock market as measured by S&P 500 has risen nearly 30% over the past six months. Some speculate that this may be a bubble or irrational exuberance. Others believe this is warranted based on fundamentals.

In response to this new question, 13.2% of the respondents think that the stock market is in a bubble (8% last quarter). 43.4% think that the stock market valuations are pricey but still not in the bubble territory (compared to over 50% last quarter). 22.6% believe that it may be in a bubble (29% last quarter) but it is not as bad as the tech bubble of 2000. 20.8% think that there is no bubble (12% last quarter), the current valuations are justified by fundamentals such as earnings, productivity and AI.

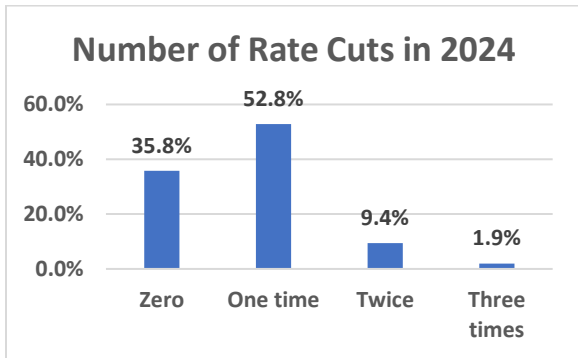
When do you think the Fed will start cutting interest rates?

51% think the first rate cut will take place in the second half of 2024, and 32% think it will happen in the first half of 2025 with 11.3% expecting it to be in the last half of 2025. 5.7% don't expect a rate cut in the next two years (6% last quarter).



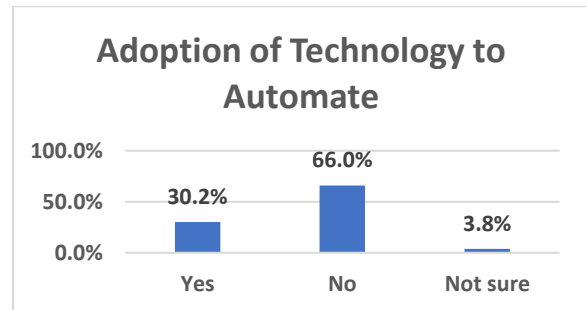
How Many Cuts in 2024?

In answer to this question, 35.8% expected no cuts in 2024, almost 53% expected one rate cut and 9.4% expected two cuts. Only under 2% think there will be three rate cuts this year.



Technology adoption for Automation

To assess to what extent our business community is using technology to save on labor and automate processes, we asked them if during the last 12 months they had adopted software or hardware to automate their work. 30% said that they had but 2/3rd said that they had not. It seems that AI and automation will take some time to start impacting most businesses.

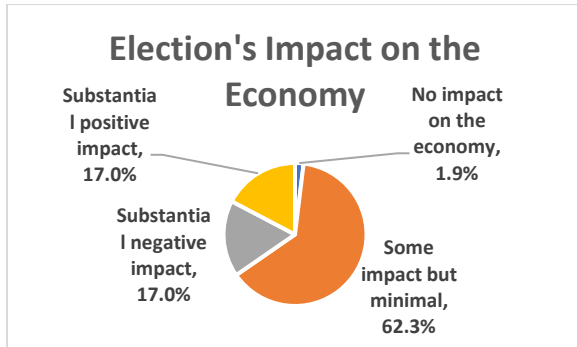


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Election's Impact on the Economy

To assess business's feeling about the election, we asked if they thought the election will an impact on the economy. Only about 2% said that it will have no effect. About 2/3rd said that it will have some impact but it will be small. But 17% of the respondents thought that it will have positive impact and the same proportion thought that it will have a negative impact. Opinions appear to be split down the middle.



Industry Categories

The graph below shows industry category of those who responded to the survey. In addition to the those shown in the graph below, these categories were also mentioned: non-profit, geo-technical engineering, wholesale distribution, government, entertainment, consulting, education, printing, hospitality-hotel, and engineering.

